

UBS CBRE Global Infrastructure Securities Fund

September 2023

Fund description

The Fund is an actively managed fund investing in global listed infrastructure securities across a range of geographic regions and infrastructure sectors which may include utilities, transportation, energy infrastructure and communication infrastructure.

Target market

The Target Market Determination (TMD) for the Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. To access to the TMD and other Fund documentation visit our website.

Investment strategy

The Fund will invest in listed infrastructure securities issued by global infrastructure companies, which are entities located throughout the world that derive at least 50% of their revenues or profits from, or devote at least 50% of their assets to, the ownership, management, development, or operation of infrastructure assets.

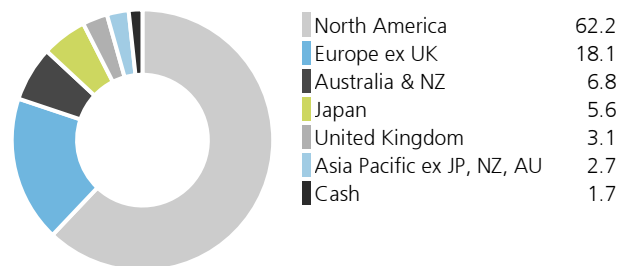
Investment objective

The Fund aims to provide a total return consisting of capital growth and income that outperforms (after management costs) the FTSE Global Core Infrastructure 50/50 Index (Net) AUD Hedged over rolling three-year periods.

Fund information

Inception date	4 August 2016
Fund size	\$ 144.2m
Management fee	1.00% pa
Minimum initial investment	\$ 50,000
Distributions	Quarterly
Buy/sell spread	+/- 0.20%
Currency management	Hedged
APIR code	UBS0064AU

Investment portfolio (%)



Top 10 positions by stock

Name	Country	Portfolio Weight (%)
American Tower Corporation	United States	4.70
NextEra Energy, Inc.	United States	4.50
VINCI SA	France	3.85
WEC Energy Group Inc	United States	3.56
Cellnex Telecom S.A.	Spain	3.56
Aena SME SA	Spain	3.54
Transurban Group Ltd.	Australia	3.40
Enbridge Inc.	Canada	3.36
Central Japan Railway Company	Japan	3.30
Targa Resources Corp.	United States	3.21
Top 10 Total		36.98

Top 5 overweight by stocks

Name	Country	Active Weight (%)
VINCI SA	France	3.85
Central Japan Railway Company	Japan	2.91
Enel SpA	Italy	2.79
Cellnex Telecom S.A.	Spain	2.78
WEC Energy Group Inc	United States	2.48

Top 5 underweight by stocks

Name	Country	Active Weight (%)
Duke Energy Corporation	United States	(2.88)
Williams Companies, Inc.	United States	(1.64)
Exelon Corporation	United States	(1.59)
Dominion Energy Inc	United States	(1.58)
Adani Ports & Special Economic Zone Limited	India	(1.45)

Investment performance

	1 month %	3 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	(4.71)	(8.30)	(1.05)	(2.39)	3.88	4.21	5.16
Benchmark**	(4.15)	(7.35)	(2.72)	(3.05)	2.58	2.78	3.92
Added Value	(0.56)	(0.95)	1.67	0.66	1.30	1.43	1.24

* Inception date: 4 August 2016.

** FTSE Global Core Infrastructure 50/50 Index (Net) (AUD Hedged).

Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Market review

Listed infrastructure traded down 7.3% (AUD, hedged) in a challenging third quarter. Rising treasury yields and higher cost of capital put pressure on equity returns as central bank decisions and macro datapoints continue to be evolving factors. Emerging Markets was the best performing region in 3Q trading 1.7% (local) lower. The U.K. followed behind and outperformed global infrastructure. Asia Pacific and Continental Europe were effectively inline for the quarter. The Americas were the biggest laggards. The sharp rise in treasury yields globally put pressure on equity returns as capital markets have showed signs of more tightness. Crude oil trended higher and reached \$90/barrel. Natural gas remains at lower levels compared to the start of the year but has gradually shifted higher in the quarter.

North America

- Americas was split across its sectors.
- Midstream and transportation outperformed while the more rate-sensitive utilities and communications underperformed.
- Midstream showed relative strength, supported by strength in commodity prices.
- Transportation benefitted from strength in a couple of large freight railroads.
- Utilities faced pressure as rising interest rates created a headwind to equity valuations. Utilities pass through rising financing costs to customers but are comped to yields from a valuation perspective.
- Towers also experienced headwinds from rates in the quarter.

Asia-Pacific

- Asia Pacific utilities was one of the lone positive sectors in the quarter.
- Japan utilities had several names trade higher leading the group compared to weaker Australian and Hong Kong names.
- Transportation had a similar result. Japan passenger railroads were stronger while Australian names traded lower.

Europe

- Continental Europe's best sector was transportation as several airports outperformed.
- Utilities traded worse than their U.K. counterparts.
- Communications rounded out the weaker quarter with rate-sensitive towers experiencing pressure.
- The U.K. outperformed due to utilities which provided more safety than global infrastructure in the negative quarter.

Performance review

Our disciplined process seeks consistent outperformance through active stock and sector allocation driven by our in-depth fundamental research and sophisticated quantitative investment tools.

Summary

The Fund's negative relative performance resulted from the impact of negative sector allocation. Sector allocation was positive in Asia but offset by large negative impacts in Emerging Markets and the Americas. Stock selection was positive in the Americas and Continental Europe but offset by negative stock selection impacts in the Emerging Markets and the U.K.

Sector detail

At the sector level, rails and midstream stocks contributed to relative performance the most, while utilities were the biggest drag and communications and transportation ex-rails also detracted. Within rails, strength in traffic for Japan passenger rails and strong Japan equity market supported performance and the overweight allocation to that group contributed. Stock selection was positive in Japan passenger rail and in U.S. industrial rails.

Stock selection was positive in toll roads and airports. Out of benchmark toll road operator Vinci outperformed Australia toll roads and European airport stocks, on stable concession results and upside from construction and energy transition divisions. Most European airport stocks underperformed this month, but Aena in our portfolio outperformed on strong traffic growth that continues to surprise. Sector allocation across transportation detracted due to underweight exposure to outperforming Emerging Markets transportation stocks.

Communications stock selection was a modest positive, with strength in data center holdings offset by weakness across most tower stocks including those in Europe.

The large negative impact of global utility exposure was from a combination of weak stock selection across regions and negative impact of underweight exposure to surging Japanese utilities and to Emerging Markets utilities. Those impacts were partially offset by positive sector allocation from underweight exposure in the Americas. Stock selection was most negative in Emerging Markets where China gas utilities underperformed by a wide margin.

Midstream stock selection was a bright spot with contributions from U.S. stock picks like Cheniere Energy and Targa Resources that traded well in a positive environment for commodities. Underweight exposure to underperforming TC Energy also contributed.

Market outlook

We believe infrastructure is at a valuation dislocation unparalleled over the last 20 years.

Fear has taken hold

- September brought about a dramatic close to the quarter amidst rapidly growing concerns of rising long term government bond yields.
- Markets crossed into “Extreme Fear” levels on CNN’s Fear and Greed Index and panic selling ensued in some parts of the market.
- Capital intensive businesses were amongst the victims of this environment and numerous areas of the infrastructure space were affected.
- If one were to simply stare at market multiples over the trailing 6 months, the 20% contraction for listed infrastructure versus the 4% multiple expansion of the S&P 500, may lead one to conclude there is significant trouble ahead.

Reality is much brighter

- Earnings growth expectations for listed infrastructure in 2023 and 2024 are expected to achieve an 9.1% CAGR, up from 7.9% CAGR – expected 6 months ago, highlighting the stability in the essential assets despite the derating in valuations.
- This is in contrast to broad equity earnings (i.e. - S&P 500) which are unchanged over the trailing 6 months at an inferior 6.8% growth CAGR and which heavily relies on a sharp rebound in 2024 (2023: +1.8% / 2024 +12.1%).
- Recent meetings and earnings results mostly suggest business impacts of historic movement in interest rates and inflation are manageable challenges for infrastructure companies due to the regulation and contracts in place that serve to protect the companies.

Tremendous opportunity

- While capital costs are higher, investment opportunities and commensurately higher return levels still provide a long runway for future growth. With third quarter earnings season set to begin in the next few weeks, we expect to hear more reinforcement of the earnings outlook and underlying business trends.
- As we face the unknowns of tomorrow, infrastructure offers a compelling mix of inflation protection and resilient growth at deeply discounted valuation levels. Listed infrastructure now offers investors >4% dividend yield, ~9% dividend growth and a valuation dislocation nearly unparalleled over the last 20 years.
- Recent transactions in the private market only further reinforce the notion that the listed market is cheap as deals across towers, utilities and renewables are occurring at levels which are 20-40% higher than the listed companies selling them.

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